

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name MASON COUNTY ROAD COMMISSION	County MASON
Audit Date 12/31/04	Opinion Date 2/18/05	Date Accountant Report Submitted to State: 6/16/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1960).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements (P.A. 20 of 1943 as amended [MCL 129.91], or P.A. 55 of 1962, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1997 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) THOMAS R ZICK CPA, P C			
Street Address P O BOX 149		City LEWISTON	State MI
Accountant Signature 		ZIP 49756	Date 6/16/05

MASON COUNTY ROAD COMMISSION
AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004

MASON COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

Robert Thurow
Commissioner

Douglas Robidoux
Commissioner

Nicholas Matiash
Commissioner

Gary L. Dittmer
Engineer/Manager

Mary Acker
Secretary of the
Board & Clerk

MASON COUNTY ROAD COMMISSION
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Thomas R. Zick CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

February 18, 2005

Board of County Road Commissioners
Mason County
Scottville, MI 49454

I have audited the accompanying basic financial statements of the Mason County Road Commission, a component unit of Mason County, Michigan, as of and for the year ended December 31, 2004 as listed in the Table of Contents. These basic financial statements are the responsibility of the Road Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Mason County Road Commission as of December 31, 2004 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying required supplemental information and other supplemental information listed in the Table of Contents is presented for purposes of additional analysis and are not a required part of the basic financial statements of the Mason County Road Commission. The required supplemental information is information required by the Governmental Accounting Standards Board; the other supplemental information is presented for purposes of additional analysis and have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

The management's discussion and analysis on pages 3-8 is not a required part of the basic financial statements, but is supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

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Mason County Road Commission
February 18, 2005

In accordance with Government Auditing Standards, I have also issued my report dated February 18, 2005, on my consideration of Mason County Road Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

A handwritten signature in black ink, reading "Thomas R. Zick, CPA P.C." in a cursive style.

Thomas R. Zick CPA, P.C.
Certified Public Accountant

MASON COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Mason County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2004. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the road commission's operations in more detail than a government-wide financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts—management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the Road Commission:

The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road commission's overall financial status. These statements report information about the Road Commission as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities—this is one way to measure the Road Commission's financial health or position.

The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail that the government-wide statements.

REPORTING THE COMMISSION AS A WHOLE

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two statements, mentioned above, report the road commission's net assets and how they have changed. The reader can think of the road commission's net assets (the difference between assets and liabilities) as one way to measure the road commission's financial health or financial position. Over time, increases or decreases in the road commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the road commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the road commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The road commission currently has only one fund, the general operations fund. All of the road commission's activities are accounted for in this fund. The general operations fund is a governmental fund type. Our analysis of the road commission's major fund begins on this page. The fund financial statements begin on page 11 and provide detailed information about the major fund.

**MASON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Governmental funds focus on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the road commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the road commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

FINANCIAL ANALYSIS OF THE ROAD COMMISSION AS A WHOLE

The road commission's net assets increases 51.02% from \$3,114,349 to \$4,703,163 as of December 31, 2004. The net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) by creditors, grantors, contributors, or laws or regulations of other governments; b) by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used for only the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets, net of related debt) are considered restricted.

The investment in capital assets, net of related debt, was \$2,751,765 at December 31, 2003 and \$4,545,130 as of December 31, 2004. The increase in net assets is primarily the result of infrastructure of \$1,997,083 and equipment. The road commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by Governmental Accounting Standards Board (GASB) Statement No. 34.

Net assets as of year ended December 31, 2004 and December 31, 2003

	12/31/04	12/31/03	Increase/ (Decrease)
Current and Other Assets	\$ 3,766,414	\$ 3,456,719	\$ 309,695
Capital Assets (Net)	4,703,163	2,951,310	1,751,853
Total Assets	8,469,577	6,408,029	2,061,548
Long-Term Debt Outstanding	410,207	570,589	(160,382)
Other Liabilities	2,490,186	2,673,051	(182,865)
Total Liabilities	2,900,393	3,243,640	(343,247)
Net Assets			
Invested in Capital Assets Net of Related Debt	4,545,130	2,751,765	1,793,365
Restricted	1,024,054	412,624	611,430
Total Net Assets	\$ 5,569,184	\$ 3,164,389	\$ 2,404,795

**MASON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Changes in Net Assets

A summary of changes in net assets follows:

Changes in Net Assets

	12/31/04	12/31/03	Increase/ (Decrease)
Revenues			
Licenses and Permits	\$ 7,294	\$ 6,250	\$ 1,044
Federal Grants	586,311	423,551	162,760
State Grants	4,116,297	3,649,011	467,286
Contributions from Local Units	746,365	574,034	172,331
Charges for Services	624,439	772,039	(147,600)
Interest and Rents	47,999	14,899	33,100
Gain on Equipment Disposal	43,754	14,718	29,036
Total Program Revenue	<u>6,172,459</u>	<u>5,454,502</u>	<u>717,957</u>
Expenditures			
Public Works	3,757,548	3,540,932	216,616
Interest Expense	10,116	12,114	(1,998)
Total Expenditures	<u>3,767,664</u>	<u>3,553,046</u>	<u>214,618</u>
Increase (Decrease) in Net Assets	<u>\$ 2,404,795</u>	<u>\$ 1,901,456</u>	<u>\$ 503,339</u>

The Road Commission's Fund

The road commission's general operations fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

A summary of changes in the Operating Fund is as follows:

Changes in Operating Fund

	12/31/04	37,986	Increase/ (Decrease)
Revenues			
Licenses and Permits	\$ 7,294	\$ 6,250	\$ 1,044
Federal Grants	586,311	423,551	162,760
State Grants	4,116,297	3,649,011	467,286
Contributions from Local Units	746,365	574,034	172,331
Charges for Services	624,439	772,039	(147,600)
Interest and Rents	47,999	14,899	33,100
Other Revenue	43,754	14,718	29,036
Total Program Revenue	<u>6,172,459</u>	<u>5,454,502</u>	<u>717,957</u>

**MASON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Changes in Operating Fund (Continued)

	12/31/04	12/31/03	Increase/ (Decrease)
Expenditures			
Public Works	5,711,356	5,241,775	469,581
Net Capital Outlay	(84,777)	(162,797)	78,020
Debt Service	51,183	51,120	63
Total Expenditures	<u>5,677,762</u>	<u>5,130,098</u>	<u>547,664</u>
Excess of Revenues Over (Under)			
Expenditures	494,697	324,404	170,293
Fund Balance - January 1	933,848	609,444	324,404
Restatement to Beginning Fund Balance	<u>50,040</u>	<u>-</u>	<u>50,040</u>
Restated Fund Balance January 1	<u>983,888</u>	<u>609,444</u>	<u>374,444</u>
Fund Balance - December 31	<u>\$ 1,478,585</u>	<u>\$ 933,848</u>	<u>\$ 544,737</u>

BUDGETARY HIGHLIGHTS

Prior to the beginning of any year, the road commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the road commission board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2004 was \$270,484 higher than the original budget primarily due to an increase in State Allocation revenue.

The final amended expenditure budget for 2004 was \$186,436 higher than the original budget primarily due to the road commission budgeting for additional heavy maintenance expense. The actual expenditures incurred during 2004 were more than the final amended budget by \$596,326. There were eight unfavorable variances in expenditure line items.

**MASON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Capital Assets

As of the respective year ends, the road commission had invested the following in net capital assets:

	12/31/04	12/31/03	Increase/ (Decrease)
Capital assets not being depreciated:			
Land and Improvements	\$ 110,375	\$ 110,375	\$ -
Infrastructure and Land Improvements	949,144	400,909	548,235
Subtotal	1,059,519	511,284	548,235
Capital assets being depreciated:			
Buildings	1,315,559	1,315,559	-
Equipment - Road	4,736,790	4,695,515	41,275
Equipment - Shop	70,778	70,778	-
Equipment - Office	69,370	69,370	-
Equipment - Engineering	37,618	37,618	-
Equipment - Yard & Storage	150,730	150,730	-
Infrastructure - Bridges	634,749	-	634,749
Infrastructure - Roads	1,971,421	1,157,322	814,099
Subtotal	8,987,015	7,496,892	1,490,123
Total Capital Assets	10,046,534	8,008,176	2,038,358
Total Accumulated Depreciation	5,343,371	5,056,866	286,505
Total Net Capital Assets	4,703,163	2,951,310	1,751,853

Debt related to capital assets – installment loans \$ 158,033

The Road Commission capitalized infrastructure and related assets during the current year in the amount of \$2,245,372. The infrastructure recorded, during 2004 will be depreciated in following years. The infrastructure is financed through Federal, State and local contributions. The road commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB 34.

Major capital asset additions included the following by year:

	12/31/04	12/31/03	Increase/ (Decrease)
Various Resurfacing Projects and Related Costs-Infrastructure	\$ 1,997,083	\$ 1,558,231	\$ 438,852
Trucks/Equipment	248,289	196,813	51,476
Total Additions	\$ 2,245,372	\$ 1,755,044	\$ 490,328

There were no installment purchase agreements entered into during 2004. All the equipment was acquired with road commission funds.

**MASON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(CONTINUED)**

Debt

At the year end, the road commission had \$612,564 in long-term debt, a decrease of \$158,245. The debt is payable over the next two years with a final payment due July 1, 2006. Other long-term debt is accrued vacation and sick pay leave.

In 2005, the road commission does not anticipate borrowing or financing any debt related to the acquisition of capital assets.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners, along with the road commission's fiscal and chief administrative officers, considered many factors when setting the calendar year 2005 budget. These factors included the economy, township contributions, interest rates and various others. We are projecting no increase in revenue over the year 2004, with a possible increase in expenses due to additional demands by the public for services.

This financial report is designed to provide the public, citizens and other interested parties a general overview of the road commission's finances and to show the road commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Mason County Road Commission's administrative offices at 510 E. State Street, Scottville, MI 49454.

MASON COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	<u>General Operating Fund</u>
ASSETS	
Cash demand and time deposits	\$ 2,463,559
Investments	1,028
Accounts receivable:	
Michigan Transportation Fund	575,116
State - Other	171,912
Due on County Road Agreements	108,618
Sundry Accounts	43,216
Inventories	
Road Materials	218,287
Equipment Parts and Materials	132,408
Prepaid insurance	52,270
Capital Assets (Net of Accumulated Depreciation)	<u>4,703,163</u>
TOTAL ASSETS	<u>8,469,577</u>
LIABILITIES	
Current Liabilities	
Account payable	178,474
Accrued liabilities	27,387
Advances from governmental units	118,306
Deferred revenue	1,963,662
Installment loans / MERS	202,357
Noncurrent liabilities:	
Installment loans	114,883
Vested employee benefits payable	<u>295,324</u>
TOTAL LIABILITIES	<u>2,900,393</u>
NET ASSETS	
Invested in capital assets, net of related debt	4,545,130
Restricted for County Roads	<u>1,024,054</u>
TOTAL NET ASSETS	<u>\$ 5,569,184</u>

See Notes to Financial Statements

MASON COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

Program Expenses	
Primary Road Maintenance	\$ 1,358,026
Local Road Maintenance	1,553,996
Net Equipment Expense	(45,107)
Net Administrative Expense	221,268
State Trunkline Maintenance	600,024
State Trunkline Non-Maintenance	26,066
Infrastructure Depreciation	160,453
Compensated Absences	42,030
Pension - Prior Service Cost Expense	(159,208)
Interest Expense	<u>10,116</u>
Total Program Expenses	<u>3,767,664</u>
Program Revenue	
License and Permits	7,294
Federal Grants	586,311
State Grants	4,116,297
Contributions From Local Units/Other	746,365
Charges for Services	624,439
Investment Earnings	47,999
Reimbursements/Miscellaneous	<u>845</u>
Total Program Revenue	<u>6,129,550</u>
Net Program Revenue	<u>2,361,886</u>
General Revenue	
Gain on Equipment Disposal	<u>42,909</u>
Total General Revenue	<u>42,909</u>
Change in Net Assets	2,404,795
Net Assets	
Beginning of Year - As Restated (Note N)	<u>3,164,389</u>
End of Year	<u><u>\$ 5,569,184</u></u>

See Notes to Financial Statements

MASON COUNTY ROAD COMMISSION
BALANCE SHEET
GOVERNMENTAL FUND
DECEMBER 31, 2004

	<u>General Operating Fund</u>
ASSETS	
Cash Demand and Time Deposits	\$ 2,463,559
Investments	1,028
Accounts Receivable:	
Due from State	747,028
Due on county Road Agreements	108,618
Sundry	43,216
Inventories	
Road Materials	218,287
Equipment Parts and Materials	132,408
Prepaid Expenses	<u>52,270</u>
 TOTAL ASSETS	 <u><u>\$ 3,766,414</u></u>
 LIABILITIES AND FUND EQUITY	
LIABILITIES	
Accounts Payable	178,474
Accrued Liabilities	27,387
Advances from Governmental Units	118,306
Deferred Revenue	<u>1,963,662</u>
 TOTAL LIABILITIES	 <u>2,287,829</u>
FUND EQUITY	
Fund Balance	
Undesignated	<u>1,478,585</u>
 TOTAL FUND EQUITY	 <u>1,478,585</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u><u>\$ 3,766,414</u></u>

See Notes to Financial Statements

MASON COUNTY ROAD COMMISSION
Reconciliation of Fund Balances on the Balance Sheet
to the Statement of Net Assets
DECEMBER 31, 2004

Total Governmental Fund Balance	\$ 1,478,585
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets at cost	10,046,534
Accumulated depreciation	(5,343,371)

Long Term Debt - bonds payable not due and payable in current period and is not reported in the funds	(317,240)
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Vested Employee Benefits Payable are not due and payable in the current period and are not reported in the funds	<u>(295,324)</u>
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Net Assets of Governmental Activities	<u><u>\$ 5,569,184</u></u>
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MASON COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>General Operating Fund</u>
REVENUES	
Licenses and Permits	\$ 7,294
Federal Grants	586,311
State Grants	4,116,297
Contributions From Local Units	746,365
Charges for Services	624,439
Interest and Rents	\$ 47,999
Other Revenue	<u>43,754</u>
 TOTAL PROGRAM REVENUE	 <u>6,172,459</u>
EXPENDITURES	
Public Works	5,711,356
Net Capital Outlay	(84,777)
Debt Service	<u>51,183</u>
 TOTAL EXPENDITURES	 <u>5,677,762</u>
 EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	 <u>494,697</u>
 Fund Balance - January 1, 2004 - as Restated (Note N)	 <u>983,888</u>
 Fund Balance - December 31, 2004	 <u><u>\$ 1,478,585</u></u>

See Notes to Financial Statements

MASON COUNTY ROAD COMMISSION
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance of Governmental Funds
to the Statement of Activities
FOR THE YEAR ENDED DECEMBER 31, 2004

Net Change in Fund Balances - Total Governmental Funds	\$494,697
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Capital Outlay	2,245,372
Deduct - Depreciation Expense	(487,526)

Equipment retirement is recorded as an expenditure credit in the governmental funds, but not recorded in the Statement of Activities - net book value of assets sold

(5,993)

Repayment of debt principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the Statement of Net Assets

200,275

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported expenditures in governmental funds. (Increase in compensated absences).

(42,030)

\$ 2,404,795

MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Mason County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Mason County Road Commission.

REPORTING ENTITY

The Mason County Road Commission, which is established pursuant to the County road Law (MCL 224.1), is governed by a 3 member board of county road commissioners appointed by the county board of commissioners. The road commission may not issue debt without the County's approval and property tax levies for road purposes are subject to county board of commissioners' approval.

The criteria established by the governmental Accounting Standards Board (GASB) Statement NO. 14, "The Financial Reporting entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Mason County Road Commission, a discretely presented component unit of Mason County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of County road commissioners is responsible for the administration of the Road Commission Operating Fund.

Basis of Presentation - Government-Wide financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the activities of the Mason County Road commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the road commission's assets and liabilities with the difference being reported as either invested in capital assets, net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Items not properly included among program revenues are reported instead as general revenue.

Basis of Presentation - Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions.

MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus/Basis of Accounting - Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue.

Measurement Focus/Basis of Accounting-Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Mason County Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB 34. The Mason County Road Commission has capitalized the current year's infrastructure, as well as the prior year's, as required by GASB 34, and has reported the infrastructure in the statement of net assets. The road commission will retroactively capitalize the major infrastructure assets on or before December 31, 2006, as permitted by GASB 34.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years	Shop Equipment	10 years
Road Equipment	5 to 8 years	Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years	Infrastructure - Roads	8 to 30 years
Infrastructure - Bridges	12 to 50 years		

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Budgets and Budgetary Accounting - The County Road Commission follows the requirements of the Uniform Budgeting and Accounting Act, Michigan Public Act 621 of 1978, in the preparation and execution of its annual general appropriations act. Any violations are disclosed in audits of the County Road Commission financial statements as required by law. The budgets are amended as appropriate throughout the year and lapse at year end.

MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE B - EXCESS EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2004 the County Road Commission incurred expenditures in certain areas which were in excess of the amounts budgeted as follows:

<u>Function</u>	<u>Total Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road:			
Maintenance	\$ 939,673	\$ 1,358,026	\$ (418,353)
Local Road:			
Maintenance	\$ 1,108,708	\$ 1,553,996	\$ (445,288)
Structures	\$ 670,000	\$ 893,333	\$ (223,333)
State Trunkline Maintenance	\$ 560,673	\$ 600,024	\$ (39,351)
State Non-maintenance	\$ -0-	\$ 26,066	\$ (26,066)
Administrative Expense - Net	\$ 173,287	\$ 221,268	\$ (47,981)
Capital Outlay - Net	\$ (145,442)	\$ (84,777)	\$ (60,665)
Equipment Expense - Net	\$ (131,583)	\$ (45,107)	\$ (86,476)

The above line items were spent in excess of their respective budgeted amounts. The budget was exceeded in total by \$ 596,326.

NOTE C - CASH AND INVESTMENTS

The balance sheet accounts and types of cash items are presented below:

<u>Balance Sheet Accounts</u>	<u>Amount</u>	<u>Cash Items</u>	<u>Amount</u>
Imprest cash	\$ 100	Imprest cash	\$ 100
Cash demand and time deposits	2,463,459	Savings and checking	527,585
Investments	1,028	Certificates of Deposit	1,935,874
		Investments	1,028
Total	<u>\$ 2,464,587</u>		<u>\$ 2,464,587</u>

DEPOSITS - At year-end the carrying amount of the road account deposits was \$2,463,459 and the bank balance was \$2,739,631. These funds are 12.18% insured by the Federal Deposit Insurance Corporation.

Investments - Act 217, PA 1982, authorized the commission to deposit and invest in the following:

- (a) bonds and other direct obligations of the United States or its agencies
- (b) certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union Administration that are eligible to be depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855, as amended (MCL 21.145 and 21.146)

MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE C - CASH AND INVESTMENTS (CONTINUED)

- (c) commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase and not more than 50 percent of any fund may be invested in commercial paper at any time
- (d) United States government or Federal agency obligation repurchase agreements
- (e) bankers' acceptance of United States banks
- (f) mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.

The investment is a money market fund at Merrill Lynch.

NOTE D - POST EMPLOYMENT HEALTH CARE BENEFITS

The Road Commission provides post retirement health care benefits to employees who retire from the Road Commission after January 1, 1989 and are between the ages of 58 and 65 and have ten years of service. The Road Commission will pay \$250 of the cost for the employee and spouse. During 2004 the Road Commission funded approximately \$16,258. Five employees were eligible for these post employment benefits.

NOTE E - STATE EQUIPMENT PURCHASE ADVANCE/HIGHWAY MAINTENANCE ADVANCE

State equipment purchase advance is determined by a formula applied to the book value of equipment of the previous fiscal year. This amount is adjusted each fiscal year in accordance with the formula and would be refunded to the State Department of Transportation upon termination of the State Highway Maintenance Contract. Equipment advance monies for fiscal 2004 amounted to \$72,122. The State has also advanced \$46,184 on the highway maintenance agreement.

NOTE F - DEFERRED REVENUE

During 2003 the Road commission and the Michigan Department of Transportation (MDOT) negotiated a contract whereby a specific road segment was transferred from MDOT jurisdiction to Road Commission jurisdiction in exchange for a lump sum payment by MDOT to the Road commission. The lump sum must be used to renovate, repair and/or reconstruct the road segment within a five year period. The lump sum, in an amount of \$1,987,000 was received in 2003 but none of the work was performed. The amount has been recorded as deferred revenue and will be recorded as revenue as it is earned throughout the project period. During 2004 \$23,338 was earned and recorded as revenue.

MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE G - CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Balance 1/1/04	Additions	Disposals	Balance 12/31/04
Capital assets not being depreciated:				
Land and Improvements	\$ 110,375	\$ -	\$ -	\$ 110,375
Infrastructure and Land Improvements	400,909	548,235		949,144
	511,284	548,235	-	1,059,519
Capital assets being depreciated:				
Buildings	1,315,559	-	-	1,315,559
Equipment - Road	4,695,515	248,289	207,014	4,736,790
Equipment - Shop	70,778	-	-	70,778
Equipment - Office	69,370	-	-	69,370
Equipment - Engineering	37,618	-	-	37,618
Equipment - Yard & Storage	150,730	-	-	150,730
Infrastructure - Bridges	-	634,749	-	634,749
Infrastructure - Roads	1,157,322	814,099	-	1,971,421
Subtotal	7,496,892	1,697,137	207,014	8,987,015
Accumulated Depreciation:				
Buildings	609,712	40,705	-	650,417
Equipment - Road	4,165,088	266,497	201,021	4,230,564
Equipment - Shop	36,560	5,361	-	41,921
Equipment - Office	59,757	4,102	-	63,859
Equipment - Engineering	26,120	2,333	-	28,453
Equipment - Yard & Storage	105,079	8,075	-	113,154
Infrastructure - Roads/Bridges	54,550	160,453	-	215,003
Subtotal	5,056,866	487,526	201,021	5,343,371
Net Capital Assets Being Depreciated	2,440,026	1,209,611	5,993	3,643,644
Total Net Capital Assets	\$ 2,951,310	\$ 1,757,846	\$ 5,993	\$ 4,703,163

NOTE H - FEDERAL REVENUES/EXPENDITURES

Most Federal dollars recorded by the Mason County Road Commission in 2004 were for projects controlled by the Michigan Department of Transportation. Federal compliance testing of these funds will be included in the audit of MDOT and not at the local Road Commission level. No A-133 Single Audit is required for the Mason County Road Commission.

MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE I - RISK MANAGEMENT

Mason County Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool established pursuant to the laws of the State of Michigan which authorize contracts between municipal corporations (inter-local agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Mason Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board. Settled claims for the general liability coverage have not exceeded the amount of coverage in any of the past three years.

The Road Commission is also self-insured for worker's compensation as a member of the County Road Association Self Insurance Fund.

NOTE J - PENSION PLAN

Plan Description

The Mason County Road Commission participates in a defined contribution plan administered by the Municipal Employee's Retirement System(MERS). The plan covers substantially all full-time employees. The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report may be obtained by writing to MERS at 447 N. Canal Road, Lansing, Michigan 48917.

All full time County Road union and administrative employees are eligible to participate in the system. Benefits vest after ten years of service. Employees who retire at or after age 55 with 30 years credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2.0 percent of the member's 5-year final average compensation per year of service. The system also provides death and disability benefits which are established by State Statute.

MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE J - PENSION PLAN (CONTINUED)

Participating County Road employees are required to contribute 2.0 percent of annual compensation. The County Road is required to contribute the amounts necessary to fund the Michigan Municipal Employees Retirement System using the actuarial basis specified by statute.

Actuarial Accrued Liability - The actuarial accrued liability was determined as part of an initial actuarial valuation of the plan as of December 31, 2003. Significant actuarial assumptions used in determining the investment of present and future assets of 8.0%, (a) inflation, and (b) additional projected salary increases of 4.5% per year, depending on age, attributable to seniority/merit.

All entries are based on the actuarial methods and assumption that were used in the December 31, 2003 actuarial valuation to determine the annual employer contribution amounts. The entry age normal actuarial method was used to determine the entries at disclosure.

GASB 25 INFORMATION (as of 12/31/03)

Actuarial Accrued Liability:	
Retirees and beneficiaries currently receiving benefits	\$ 802,183
Terminated employees not yet receiving benefits	25,637
Current employees:	
Accumulated employee contributions including allocated investment income	454,460
Employer financed	<u>2,022,231</u>
Total Actuarial accrued liability	3,304,511
Net Assets Available for Benefits, at actuarial value (Market Value \$1,424,330)	<u>(1,559,870)</u>
Unfunded (over funded) actuarial accrued liability	<u><u>\$1,744,641</u></u>

GASB 27 INFORMATION (as of 12/31/03)

Fiscal year beginning	January 31, 2005
Annual required contribution (ARC)	\$ 177,756
Required amortization of unfunded liability	<u>158,207</u>
	<u><u>\$ 335,963</u></u>
Amortization Factor Used	.0053632

Contributions Required and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the fiscal year ended December 31, 2004 were determined using the entry age normal actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

As part of the agreement to join the MERS system, the County Road Commission was required to contribute, over a four year period, 50% of the unfunded liability. The following schedule shows a computation of that contribution amount.

MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE J - PENSION PLAN (CONTINUED)

Total unfunded actuarial accrued liability (Per initial valuation dated January 31, 2002)	\$ 2,401,662
Required initial amortization of unfunded liability - 50%	(1,200,831)
Less roll over of prior union pension plan	<u>(564,000)</u>
Net amount due	<u>\$ 636,831</u>

Schedule of contribution due not later than December 31, of each year:

2002	\$ 159,208	Paid in 2002
2003	159,208	Paid in 2003
2004	159,208	Paid in 2004
2005	<u>159,207</u>	
	<u>\$ 636,831</u>	

The \$159,208 is recorded as a fringe benefit expense each year when paid and allocated to the various line item expenditure accounts. The payment is also shown as a payment of long-term debt, so it is shown on the accompanying Statement of Activities as a subtraction because it is included, for the most part, in the other line item expenditures.

Actuarial Valuation Date <u>December 31</u>	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % Of Covered Payroll
1/31/02	564,000	2,401,662	1,837,662	24%	1,283,690	143%
12/31/02	1,107,448	2,846,389	1,738,941	39%	1,285,132	135%
12/31/03	1,559,870	3,304,511	1,744,641	47%	1,404,661	124%

Annual pension cost (excluding prior service cost)

<u>Year Ended December 31</u>	<u>Annual Pension Cost(APC)</u>	<u>Net Pension Obligation</u>
2002	\$ 179,638	-0-
2003	\$ 191,158	-0-
2004	\$ 184,068	-0-

MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE K - LONG TERM DEBT

The following is a summary of pertinent information concerning the County Road Commission's long-term debt.

<u>CHANGES IN LONG TERM DEBT</u>				
<u>Description</u>	<u>January 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2004</u>
Caterpillar Financial Service Corp	\$ 134,617	\$ -0-	\$ 9,637	124,980
West Shore Bank-Installment	64,483	-0-	31,430	33,053
Compensated Absences (1)	253,294	42,030	-0-	295,324
MERS-unfunded liability(See Note E)	<u>318,415</u>	<u>-0-</u>	<u>159,208</u>	<u>159,207</u>
Total	<u>\$ 770,809</u>	<u>\$ 42,030</u>	<u>\$ 200,275</u>	<u>\$ 612,564</u>

(1) The change in compensated absences is shown as a net addition.

During 2000 the Road Commission entered into an installment purchase contract to purchase a Caterpillar Model 14H. One payment of \$34,696 is to be made annually for five years. This annual payment includes principal and interest. Interest is computed at an annual rate of 5.05%. The Road Commission borrowed on a third party agreement from West Shore Bank.

During 2001 the Road Commission purchased a Caterpillar 140H motor grader and financed it on a lease/purchase with Caterpillar Financial Services Corporation. The interest rate is 5.25% per annum with monthly payments of \$1,368 required. After 60 months (July 1, 2006) a final balloon payment of \$110,517 would be required to pay the balance due.

Annual Debt Service Requirements:

	<u>2005</u>	<u>2006</u>	<u>Total</u>
Principal	\$ 202,357	\$ 114,883	\$ 317,240
Interest	<u>7,989</u>	<u>2,958</u>	<u>10,947</u>
	<u>\$ 210,346</u>	<u>\$ 117,841</u>	<u>\$ 328,187</u>

NOTE L - COMPENSATED ABSENCES

County Road employee's earn vacation leave in varying amounts depending on the number of years of service. Unpaid vacation leave at December 31, 2003 amounted to \$51,852.

Sick leave is accumulated at the rate of one day for each month of service with accumulation not to exceed 656 hours or 82 days. Unpaid sick leave at December 31, 2003 amounted to \$152,845.

Unpaid personal leave amounted to \$90,627 at December 31, 2004.

Upon termination of employment, vacation is payable at 100 percent of the accumulated balance. Sick leave is payable at 50 percent only upon death or retirement for most employees.

For future periods, sick pay will no longer accumulate. Eight days per year are allowed and if not used by December 31, they are paid on the last pay of the year. The accumulated balances shown above will therefore not increase, but will decrease annually as they are paid off.

MASON COUNTY ROAD COMMISSION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2004

NOTE M - FUND BALANCE DEFICIT

At December 31, 2004 the components of the Road Commission fund balance were as follows:

<u>Total</u>	<u>Primary Road Fund</u>	<u>Local Road Fund</u>	<u>County Road Fund</u>
<u>\$1,478,585</u>	<u>\$ 1,855,494</u>	<u>\$ (376,915)</u>	<u>\$ 6</u>

The Local Road Fund portion of the fund balance show a deficit. This deficit decreased from \$ 568,225 at December 31, 2003 to \$ 376,915 at December 31, 2004.

NOTE N – PRIOR PERIOD ADJUSTMENT

The beginning fund balance in the operating fund statement and the beginning net asset balance shown on the Statement of Net Assets has been adjusted to account for prepaid insurance not recorded in prior years. As of December 31, 2003 the prepaid amount was \$50,040. As of December 31, 2004 this amount was increased to \$52,270 and the \$2,230 difference was an adjustment to expense for 2004.

	<u>Net Assets</u>	<u>Fund Balance</u>
Net Assets/Fund Balance as previously reported	\$ 3,114,349	\$ 933,848
Prior Period Adjustment	<u>50,040</u>	<u>50,040</u>
Net Assets/Fund Balance as Restated	<u>\$ 3,164,389</u>	<u>\$ 983,888</u>

REQUIRED SUPPLEMENTAL INFORMATION

MASON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF REVENUES - BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Adopted Budget	Final Amended Budget	Actual	Variance With Final Budget
Licenses and Permits:				
Permits	\$ 3,500	\$ 5,755	\$ 7,294	\$ 1,539
Subtotal	<u>3,500</u>	<u>5,755</u>	<u>7,294</u>	<u>1,539</u>
Federal Aid:				
Force Account	200,000	1,160	50,575	49,415
Critical Bridge	640,000	536,000	535,736	(264)
Subtotal	<u>840,000</u>	<u>537,160</u>	<u>586,311</u>	<u>49,151</u>
State Aid:				
Engineering	10,000	10,000	10,000	-
Allocation	3,090,000	3,634,754	3,816,673	181,919
Snow Removal	100,000	115,000	118,974	3,974
Economic Development Funds/Other	86,300	126,704	71,637	(55,067)
Critical Bridge	120,000	100,500	99,013	(1,487)
Subtotal	<u>3,406,300</u>	<u>3,986,958</u>	<u>4,116,297</u>	<u>129,339</u>
Contributions				
Townships	300,000	341,153	543,505	202,352
Other	210,000	201,132	202,860	1,728
Subtotal	<u>510,000</u>	<u>542,285</u>	<u>746,365</u>	<u>204,080</u>
Charges for Services:				
State Trunkline Maintenance	500,000	446,373	598,373	152,000
State Trunkline Non-Maintenance	-	-	26,066	26,066
Subtotal	<u>500,000</u>	<u>446,373</u>	<u>624,439</u>	<u>178,066</u>
Interest				
Interest Income	<u>3,000</u>	<u>16,774</u>	<u>47,999</u>	<u>31,225</u>
Other Revenue:				
Miscellaneous	2,000	380	845	465
Gain on Sale of Fixed Assets	50,000	49,599	42,909	(6,690)
Subtotal	<u>52,000</u>	<u>49,979</u>	<u>43,754</u>	<u>(6,225)</u>
Total Operating Revenue	<u>\$ 5,314,800</u>	<u>\$ 5,585,284</u>	<u>\$ 6,172,459</u>	<u>\$ 587,175</u>

See Notes to Financial Statements

MASON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED DECEMBER 31, 2004

	Original Adopted Budget	Final Amended Budget	Actual	Variance With Final Budget
Primary Road:				
Heavy Maintenance	\$ 250,000	\$ 151,609	\$ 23,338	\$ 128,271
Maintenance	700,000	939,673	1,358,026	(418,353)
Local Road:				
Heavy Maintenance	700,000	1,546,065	1,080,412	465,653
Maintenance	1,500,000	1,108,708	1,553,996	(445,288)
Structures	800,000	670,000	893,333	(223,333)
State Trunkline Maintenance	600,000	560,673	600,024	(39,351)
State Trunkline Non-Maintenance	-	-	26,066	(26,066)
Equipment Expense - Net:				
Direct			889,602	
Indirect			474,253	
Operating			221,473	
Less: Equipment Rental			(1,630,435)	
(1)	50,000	(131,583)	(45,107)	(86,476)
Administrative Expense - Net:				
Administrative Expense			284,463	
Less: Overhead - State Trunkline			(58,817)	
Less: Purchase Discounts and Handling				
Charges			(4,378)	
(1)	200,000	173,287	221,268	(47,981)
Capital Outlay - Net:				
Capital Outlay			248,289	
Less:				
Depreciation/Equipment Retirements			(333,066)	
	(160,000)	(145,442)	(84,777)	(60,665)
Debt Service:				
Principal	70,000	39,432	41,067	(1,635)
Interest	25,000	9,014	10,116	(1,102)
MERS (2)	160,000	160,000	-	160,000
	255,000	208,446	51,183	157,263
Total Expenditures	\$ 4,895,000	\$ 5,081,436	\$ 5,677,762	\$ (596,326)

(1) Note: This portion of budget was adopted in total only

(2) Note: Expenditure was allocated to all categories with wages and not charged to a single line item.

See Notes to Financial Statements

SUPPLEMENTAL INFORMATION

MASON COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues and Other Financing Sources	\$ 2,462,900	\$ 3,062,580	\$ 646,979	\$ 6,172,459
Total Expenditures	1,414,680	3,660,865	602,217	5,677,762
Excess of Revenues Over (Under) Expenditures	1,048,220	(598,285)	44,762	494,697
Fund Balance - January 1	1,502,069	(568,225)	4	933,848
Restatement to Beginning Fund Balance	-	50,040	-	50,040
Fund Balance January 1 - Restated	1,502,069	(518,185)	4	983,888
Interfund Adjustments	(694,795)	739,555	(44,760)	-
Fund Balance - December 31, 2004	\$ 1,855,494	(376,915)	6	1,478,585

See Notes to Financial Statements

MASON COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits:				
Permits	\$ -	\$ 7,294	\$ -	\$ 7,294
State Aid:				
Engineering	6,068	3,932	-	10,000
Allocation	2,216,062	1,457,351	-	3,673,413
Urban Roads	99,920	43,340	-	143,260
Snow Removal	-	118,974	-	118,974
State Other	71,637	99,013	-	170,650
Federal Revenue:				
Critical Bridge	-	535,736		535,736
Force Account	-	50,575		50,575
Contributions				
Townships	-	543,505	-	543,505
Other	-	202,860	-	202,860
Charges for Services:				
State Trunkline Maintenance	-	-	598,373	598,373
State Trunkline Non-Maintenance	-	-	26,066	26,066
Interest				
Interest Income	47,999	-	-	47,999
Other Revenue:				
Salvage Sales	-	-	845	845
Gain on Sale of fixed Assets	21,214	-	21,695	42,909
Total Operating Revenue	<u>\$ 2,462,900</u>	<u>\$ 3,062,580</u>	<u>\$ 646,979</u>	<u>\$ 6,172,459</u>

See Notes to Financial Statements

MASON COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Heavy Maintenance	\$ 23,338	\$ 1,973,745	\$ -	\$ 1,997,083
Maintenance	1,358,026	1,553,996	-	2,912,022
State Trunkline				
Trunkline Maintenance	-	-	600,024	600,024
Trunkline Non-Maintenance	-	-	26,066	26,066
Equipment Expense - Net	(12,337)	(25,882)	(6,888)	(45,107)
Administrative Expense - Net	62,262	159,006	-	221,268
Capital Outlay - Net	(41,914)	-	(42,863)	(84,777)
Debt Service				
Debt Principal Payments	20,304	-	20,763	41,067
Interest	5,001	-	5,115	10,116
Total Expenditures	<u>\$ 1,414,680</u>	<u>\$ 3,660,865</u>	<u>\$ 602,217</u>	<u>\$ 5,677,762</u>

See Notes to Financial Statements



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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

February 18, 2005

Board of County Road Commissioners
Mason County
Scottville, Michigan 49454

I have audited the component unit financial statements of the Mason County Road Commission, a Special Revenue Fund of the County of Mason, Michigan, as of and for the year ended December 31, 2004, and have issued my report thereon dated February 18, 2005. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government and Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mason County Road Commission's component unit financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Mason County Road Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the component unit financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted other matters involving the internal control over financial reporting, which I have reported to management of Mason County Road Commission in a separate letter dated February 18, 2005.

This report is intended solely for the information and use of management, the Board of Road Commissioners, the Michigan Department of Treasury, and Michigan Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Thomas R. Zick, CPA P.C.", written in a cursive style.

THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT



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FINANCIAL AUDIT COMMENTS

February 18, 2005

Board of County Road Commissioners
Mason County
Scottville, Michigan 49454

In planning and performing my audit of the component unit financial statements of Mason County Road Commission, for the year ended December 31, 2004, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing my opinion on the component unit financial statements and not to provide assurance on the internal control structure. However, I noted certain matters involving the internal control structure and its operation that I consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgment, could adversely affect Mason County Road Commission's ability to record, process, summarize, and report financial data consistent with the assertions of management in the component unit financial statements.

BUDGETS

The Road Commission follows the procedures in establishing the budgetary data reflected in the financial statements in accordance with the Uniform Budgeting and Accounting Act (Act No. 621, Public Act of 1978) as prescribed by the State of Michigan.

Public Act 621 of 1978, section 18 (1), as amended, provides that a County Road Commission shall not incur expenditures in excess of amounts appropriated. As presented in the financial statements for the year ended December 31, 2004, the County Road Commission incurred expenditures which were in excess of the amounts appropriated as follows:

<u>Function</u>	<u>Total Budget</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Primary Road:			
Maintenance	\$ 939,673	\$ 1,358,026	\$ (418,353)
Local Road:			
Maintenance	\$ 1,108,708	\$ 1,553,996	\$ (445,288)
Structures	\$ 670,000	\$ 893,333	\$ (223,333)
State Trunkline Maintenance	\$ 560,673	\$ 600,024	\$ (39,351)
State Non-maintenance	\$ -0-	\$ 26,066	\$ (26,066)
Administrative Expense - Net	\$ 173,287	\$ 221,268	\$ (47,981)
Capital Outlay - Net	\$ (145,442)	\$ (84,777)	\$ (60,665)
Equipment Expense - Net	\$ (131,583)	\$ (45,107)	\$ (86,476)

The budget was exceeded in total by \$ 596,326.

FUND BALANCE

During the fiscal year ended December 31, 2003 your total fund balance increased by \$494,697. The present fund balance of \$1,478,585 is adequate, however, expenditures in the local road fund portion of the fund balance have exceeded revenues for the past several years. The State Statutes permit an optional transfer of up to 30% of your ACT 51 allocation annually from the primary fund to the local fund, but with your current expenditure levels the fund balance deficit in the local road fund portion of your fund balance still shows a deficit of \$376,915 at December 31, 2004. This was an improvement from 2003, but a deficit elimination plan must be filed with the Department of Treasury because the deficit still exists.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

My consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions are considered to be material weaknesses.

This report is intended solely for the information and use of the Mason County Road Commission, its management, and the Michigan Departments of Treasury and Transportation and is not intended to be and should not be used by anyone other than these specified parties.



THOMAS R. ZICK CPA, P.C.
CERTIFIED PUBLIC ACCOUNTANT